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Memorandum

TO: MCAC/Partnership EJ Subcommittee DATE: November 22, 2006

FR: James Corless

RE: Analysis for November 28th Meeting

At your last meeting, staff presented an overview of how different funding sources for the five major transit operators worked and how existing policies and statutes limit the ability of the region to shift funding from one area or operator to another. The purpose of this memo is twofold: (1) to highlight several qualitative "what if" funding scenarios that staff has generated to suggest how the funding differences in cell #7 might be addressed, and (2) to summarize some overall conclusions for this EJ funding analysis exercise in order to report back to the Commission in January 2007.

Key Questions for Cell #7

There are two key issues related to cell #7 that staff is asking the subcommittee to address at your November 28th meeting.

(1) While the EJ subcommittee has raised questions about the funding patterns shown in cell #7, there has been no consensus on defining whether this represents an "inequity" as Principle #2 requires. Do the differences in funding among transit operators in cell #7 represent an "inequity" as referenced in EJ principle #2? If so, how is that "inequity" specifically defined? Is the underlying premise of trying to match the share of regional transit funding with the share of regional transit riders valid? Will providing parity between the share of transit riders and the share of funding automatically benefit EJ and low-income transit riders?

(2) If the discrepancies in funding among transit operators in cell #7 does indeed represent an inequity in the view of the subcommittee, which of the six funding scenarios —or package of scenarios—presented below should the region pursue? Do the members of the EJ subcommittee feel comfortable with any of scenarios that reshuffle existing funding among transit operators, thereby creating "winners and losers"?

"What if" Funding Scenarios for Cell #7

The following six qualitative scenarios summarize how funding might hypothetically be increased for two transit operators in particular: Muni and AC Transit. As a reminder, the funding analyses developed under cell #7 suggest the following:

- Muni receives less funding – both in terms of MTC discretionary funds and other non-discretionary funds – relative to their share of either the region's minority transit passengers or total transit riders.

- AC Transit receives a larger share of MTC discretionary funds relative to their share of either the region's minority transit passengers or total transit riders, but receives less non-discretionary funding relative to the other four transit operators in this analysis.

Scenario 1: MTC Policy Changes
This scenario is limited to fund sources where MTC could, through existing statute, amend policies and shift funding between operators. Some examples – based on the analysis provided to the subcommittee at the last meeting – include the following:

§ State Transit Assistance (STA) Population-Based: Shift more funding toward Muni and/or AC Transit – would result in loss of funding for northern counties, small operators, and/or regional coordination projects.

§ AB 1107 – MTC Administered: Change the share of funding to Muni or AC Transit – the other operator would experience a loss of funding since current split of funding is 50-50 between the two operators.

§ Federal Transit Administration (FTA) Formula Funds: For San Francisco/Oakland Urbanized area, direct more funding to Muni and/or AC Transit. This would require change to current policy that scores replacement capital with highest priority given to vehicle and track/guideway replacement/rehabilitation. Given that AC Transit and Muni are currently having these top scoring projects satisfied, the change in policy would entail other operators being denied some level of top scoring capital investment in order for AC Transit and Muni to have "space" to invest in lower scoring projects.

§ AB 664 funds: Change the existing policy which dedicates funds as match to FTA formula funds such that more funds directed to Muni and/or AC Transit.

Analysis: This scenario is a zero-sum game in as much as it relies on creating winners and losers among existing transit operators. Since all of the major operators carry minority and low-income riders, any policy changes to shift funding will thus disadvantage one group of minority and low-income riders to benefit another, thus "robbing Peter to pay Paul".

Scenario 2: Transit Operator Policy Changes
This scenario expands the focus beyond proportionate funding for the operators to include operating costs and cost effectiveness. The higher the operating costs for transit operators in the region, the less of the existing revenue is available for new or expanded services and capital rehabilitation. Reduction in costs or improvement in operating effectiveness could create capacity for expanded services within the funding "envelope" operators receive under existing statutes and/or policy. In addition, operators could also pursue a range of farebox revenue enhancement strategies, such as the restriction of traditional fare discounts to only the minimum

levels required by federal law for disabled and senior riders, while providing the subsequent differential fare revenues for additional service to low-income communities or fare discounts for low-income riders.

However, any cost controls, efficiency increases or fare enhancements will not necessarily result in a change in the comparative operator funding shares as illustrated on the charts in cell #7. Essential to this scenario is the supposition that equity may not be defined solely on funding shares, but consider relatively improved funding capacity.

Analysis: This scenario highlights the opportunities to generate additional service from existing revenues coupled with cost decreases and/or revenues generated by modifications in fare pricing – measures that, while promising, are likely to run into conflicts with labor and stakeholder groups.

Scenario 3: Statutory Changes

This scenario assumes that MTC and its state and federal legislative delegation could seek changes in law such that more of the existing transit funding flows to Muni and/or AC Transit. Examples for the significant fund sources include:

- TDA: Change return to source requirement such that other county revenue can be used for Muni and/or AC Transit. Would likely require the funds to be pooled and administered regionally instead of the current statewide structure that is a county-based return to source. Absent on increase in TDA overall, would result in some operators receiving less money in order to redirect more to AC Transit and Muni.
- STA Revenue-Based: Either change the formula such that AC Transit and/or Muni receive a greater share – perhaps based on ridership instead of dedicated local revenue – or allow funds to be divided at the regional level.
- FTA Formula Funds: Eliminate the urbanized area distinctions in the Bay Area -- i.e. from 12 Urbanized Areas to one -- and allow the funds to be distributed anywhere in the region based on either a policy adopted by MTC or through some other mechanism.
- AB 1107 – Portion that BART Administers: Change the law to allow the entire BART district tax to be eligible among BART, Muni, and AC Transit instead of the current framework where 25% is eligible among the three operators and 75% is dedicated and administered by BART.

Analysis: As with the first scenario, Scenario 3 is essentially a zero-sum game in as much as it relies on creating winners and losers among existing transit operators. Since all of the major operators carry minority and low-income riders, any statutory changes to shift funding will thus disadvantage one group of minority and low-income riders to benefit another thus "robbing Peter to pay Paul".

Scenario 4: Policy Changes for Transit Expansion Projects

This scenario—often suggested by critics of the region's transit expansion program—would shift funding in favor of Muni and/or AC Transit. This could be achieved in at least two ways: 1) alter Resolution 3434 to delete projects and add projects that expand or enhance services for Muni and/or AC Transit; and 2) eliminate a significant portion of the transit expansion to reduce future demand for capital rehabilitation that could result from any transit extensions in the region.

Analysis: Backing off current regional funding commitments to expand transit systems would not free up any additional operating revenues for service in low-income communities and would not have any near term impact on capital rehabilitation needs. The majority of financial commitments to new transit expansion projects have already been made through local voter-approved measures, so opportunities to redirect flexible funds to other transit projects or operators are limited.

Scenario 5: New Revenue
This scenario does not redistribute existing funds, but instead focuses on the need for new, long-term, stable revenue sources to address any differences in proportionate funding for Muni and/or AC Transit. Options could include property taxes, district sales taxes, regional gas taxes, and/or vehicle license or other impact fees.

Analysis: The advantage of this scenario is that it does not create a divisive fight among transit operators over existing financial resources. New revenues, however, will need to be approved by both the legislature and the voters and will require long-term political support and commitment. The first opportunity to seek voter approval of new revenue sources would be the 2008 election.

<u>Key Findings for EJ Funding Analysis</u>

While the EJ funding analyses that this subcommittee has been involved with since May 2006 have been complex and challenging, there are a number of overall conclusions – notwithstanding the unanswered questions above – that are warranted as we bring this effort to a close.

(1) The EJ funding analyses in cells 1, 4 and 7 are admittedly not perfect but nevertheless represent the best and most comprehensive analysis that can be developed with the existing data. As members of the EJ subcommittee have suggested at past meetings, there is no one single measure or analysis that can completely capture whether communities of concern are receiving their "fair share" of transportation funding, but all three analyses taken together can nevertheless begin to provide some degree of clarity.

(2) As staff has noted before, the analyses to date show that—with the exception of the unanswered issues raised about cell #7—communities of concern appear to be "benefiting" from regional transportation funding in equivalent or greater proportion to the remainder of Bay Area residents. This does <u>not</u> mean, however, that gaps don't exist in the provision of transportation services to low-income communities. It <u>does</u> mean that the underfunding of transportation is at least equally distributed across both communities of concern and the remainder of the region.

(3) It has been suggested by members of the EJ subcommittee that the funding analyses for cells 1a, 4a, and 7a be performed as part of the development of the forthcoming regional transportation plan (RTP) and once new transit ridership demographic information is available. Staff also recognizes that the subcommittee has expressed interest in developing a future analysis suggested by cell #8 – service

outputs by transit operator. This may also best be handled as part of the update to the next RTP.

(4) Given that EJ principle #2 is aimed at the collection of "accurate and current data," one of the most obvious data gaps that these analyses show is the inconsistency of demographic data for the region's transit passengers. MTC and the region's transit operators are aiming to address this in a new transit passenger survey to be completed in 2007 that for the first time will collect accurate and consistent demographic data for every transit operator in the region. There are also other data gaps, such as the development of more accurate system usage data for cell #1, that should ideally be improved for future analyses. These will be referenced in the final report to the Commission.

(5) As discussed in the draft EJ funding analysis report reviewed in previous EJ subcommittee meetings, a significant part of what cell #7 is reflecting is the fact that rail systems inherently have higher capital costs than bus systems (e.g. the required maintenance of tracks, stations, etc.). While MTC believes that the region has a financial responsibility to maintain and repair our rail systems to keep them safe and in good repair, the EJ funding analyses performed to date suggests the importance of ensuring that new rail service in particular meets the highest possible cost-effectiveness thresholds and not create any significant future financial liabilities.

(6) Regardless of whether the subcommittee believes that cell #7 represents an "inequity" in how transportation funds are distributed, there appear to be some significant conclusions that are warranted as a result of the analysis of funding by transit operators in particular. These are as follows:

- Muni plays a significant role in the region due to the fact that they carry more passengers, and more minority passengers, than any other transit operator. Muni receives less funding – both in terms of MTC discretionary funds and other non-discretionary funds – relative to their share of either the region's minority transit passengers or total transit riders. This is in part because Muni carries a very high volume of passengers per service hour. However, ongoing budget crises and a significant underestimation of Muni's capital rehabilitation need in the past suggest that additional revenues along with further increases in efficiency and cost controls are needed.

- AC Transit receives a larger share of MTC discretionary funds relative to their share of either the region's minority transit passengers or total transit riders, but receives less non-discretionary funding relative to the four other operators in this analysis. Two smaller parcel taxes have been successfully approved by voters in the AC Transit district since 2002, but it appears that a longer term and more stable source of new local operating revenue – combined with additional cost controls – are critical in order to avoid future service cuts and fare increases.

- Rather than spend a great deal of energy and time trying to re-apportion the "funding pie" for transit operations, the region may be best served by developing a strategy to secure new revenues for transit operations. MTC strongly believes that any new revenue sources for transit operations must be tied to strong performance and cost control measures.

Next Steps

Staff will integrate feedback from the EJ subcommittee into a final report that will be presented to the Partnership Board on Friday, December 8th and to MCAC on Tuesday, December 12th. Comments from both these meetings will be incorporated into the presentation of the final EJ funding analysis report to the Legislation Committee of the Commission on Friday, January 12th.

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